Canadian Superior Oil Ltd. Annual Report 1976

Canadian Superior Oil Ltd.

Incorporated under the Laws of Canada

Head Office: Three Calgary Place,
355 Fourth Avenue S.W.,
Calgary, Alberta T2P 0J3

Directors

D. L. BOHANNAN, Vice-President, Operations, Canadian Superior Oil Ltd.
H. J. CAINE, Vice-President, Exploration, Canadian Superior Oil Ltd.
A. E. FELDMEYER, President, Canadian Superior Oil Ltd.
A. W. HENRICKS, Q.C., Barrister and Solicitor
H. B. KECK, President, The Superior Oil Company
W. M. KECK, JR., Investments; Director, The Superior Oil Company
D. E. LEWIS, Q.C., Barrister and Solicitor
J. L. NORMAN, Senior Vice-President, The Superior Oil Company
W. A. PRISCO, Executive Vice-President, and Chief General Manager, The Mercantile Bank of Canada
W. G. ROBINSON, President, Canadian Superior Exploration Limited

Officers

J. L. NORMAN, Chairman of the Board
A. E. FELDMEYER, President
D. L. BOHANNAN, Vice-President, Operations
H. J. CAINE, Vice-President, Exploration
D. C. L. JONES, Vice-President, Secretary and General Counsel
J. W. PYLE, Vice-President, Finance and Administration
T. J. EMERSON, Vice-President, Contracts
R. C. SCHRADER, Vice-President, International Contracts
R. G. CHITTICK, Treasurer
A. G. CAMERON, Comptroller

Executive Committee:

H. J. CAINE
A. E. FELDMEYER
A. W. HENRICKS
H. B. KECK
D. E. LEWIS
J. L. NORMAN

Audit Committee:

A. E. FELDMEYER
A. W. HENRICKS
D. E. LEWIS

Compensation Committee:

A. W. HENRICKS
D. E. LEWIS

Auditors

PRICE WATERHOUSE & CO.,
Calgary, Alberta

Transfer Agents

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

THE BANK OF NEW YORK
New York, New York 10015

Registrars

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

CITIBANK, N. A.
111 Wall Street
New York, New York 10015

Stock Exchange Listings

AMERICAN STOCK EXCHANGE (CDS)
TORONTO STOCK EXCHANGE (CAS)

of water. The well tested at a rate of 1,790 barrels of oil per day and has been temporarily suspended to enable a further evaluation of the economic potential of the discovery.

Offshore southeast India, on the Company's Cauvery Basin permit, detail seismic shooting has commenced in order to further define anomalies of drillable status. Drilling is expected to commence in this area around the end of the year. Canadian Superior's interest in this project is 21.67%.

An exploratory well in the Gulf of Thailand, where your Company will earn a 5% interest in four offshore permits, has reached total depth of 10,010 feet. Testing operations are currently in progress.

In the Gulf of Honduras, offshore Guatemala, drilling of a second exploration well, in which your Company has a 12.5% interest, has terminated at a total depth of 13,875 feet. Testing operations are currently in progress. Immediately to the north of this area, your Company entered into an agreement with the Government of Belize covering an offshore area of 1,555 square miles. Canadian Superior's interest is 24%. Farmout discussions are now underway with a major operator however, in which that company will earn 57% of the licensed area for completing a seismic program and drilling an exploratory well to 14,000 feet. Your Company's interest will be 13.5% if the farmout is made.

In Bangladesh, due to the lack of encouragement from seismic and geological programs, Canadian Superior has initiated the termination of its Production-sharing Contract.

In the North Sea, exploration activity during the last six months has been concentrated on the evaluation of lands expected to be offered by the United Kingdom Government later in the year. Development drilling and expansion of production facilities in the Hewett Field are proceeding on schedule. In the Netherlands sector, the second commitment well under a farmout agreement in Block K-12 was spudded on May 21, 1976. The well is being drilled at no cost to your Company.

In the Gulf of Mexico, nine exploratory tests were completed and two wells are currently drilling. Fourteen development wells were completed (two dry) and two more are in progress. Production is currently being obtained from two blocks offshore Louisiana and one block offshore Texas. Production facilities are essentially completed on Block 249, offshore Louisiana, and five other blocks are at various stages of development. The Federal Power Commission has announced gas price increases effective July 1, 1976 which could significantly improve revenues from this area.

August 3, 1976
Calgary, Alberta

A. E. FELDMEYER
President

CANADIAN SUPERIOR OIL LTD.

Cancorp

INTERIM REPORT

FOR SIX MONTHS ENDED JUNE 30, 1976

CANADIAN SUPERIOR OIL LTD. and Subsidiary Companies

Consolidated Statement of Income

	Six Months Ended June 30		Three Months Ended June 30	
	1976	1975	1976	1975
INCOME				
Gross operating income, less royalties and mineral taxes	$66,958,313	$55,547,080	$30,184,830	$25,570,587
Interest, dividends and other income	2,869,103	3,045,369	939,640	745,108
	69,827,416	58,592,449	31,124,470	26,315,695
EXPENSES				
Operating, administrative and general	10,602,058	8,237,896	4,969,610	4,319,512
Rents of undeveloped properties	920,251	1,146,809	445,952	591,666
Exploration — geological and geophysical	4,261,682	3,237,061	2,447,781	1,445,549
Intangible drilling expenditures	16,402,558	8,503,294	7,854,627	4,490,747
Depreciation	3,517,434	3,287,047	1,763,067	1,651,221
Depletion	472,577	431,315	224,092	204,144
Leases abandoned	3,191,824	3,058,357	2,460,419	1,041,503
	39,368,384	27,901,779	20,165,548	13,744,342
NET INCOME BEFORE INCOME TAXES	30,459,032	30,690,670	10,958,922	12,571,353
Provision for income taxes				
Current	18,089,439	15,966,770	8,519,219	7,464,324
Deferred	(3,688,000)	(2,265,000)	(2,616,000)	(1,216,000)
	14,401,439	13,701,770	5,903,219	6,248,324
NET INCOME FOR THE PERIOD	$16,057,593	$16,988,900	$ 5,055,703	$ 6,323,029
Average shares outstanding	8,554,753	8,553,286	8,555,419	8,553,286
Net income per share	$1.88	$1.99	$0.59	$0.74
OPERATING RESULTS (gross units)				
Crude oil and natural gas liquids production — barrels daily	34,282	37,235	32,685	35,504
Natural gas sales — million cubic feet daily	245	254	210	217
Sulphur production — long tons daily	800	829	741	777
Sulphur sales — long tons daily	255	439	295	464

Head Office: Three Calgary Place
355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3

Consolidated Statement of Changes in Financial Position

	Six Months Ended June 30 1976	Six Months Ended June 30 1975	Three Months Ended June 30 1976	Three Months Ended June 30 1975
SOURCE OF WORKING CAPITAL				
Net income	$ 16,057,593	$ 16,988,900	$ 5,055,703	$ 6,323,029
Add charges to income not requiring the use of working capital including depreciation, depletion, leases abandoned and deferred income taxes	3,493,835	4,511,719	1,831,578	1,680,868
	19,551,428	21,500,619	6,887,281	8,003,897
Add drilling and exploration expenditures	20,664,240	11,740,355	10,302,408	5,936,296
Working capital provided from operations before drilling and exploration expenditures	40,215,668	33,240,974	17,189,689	13,940,193
Capital stock issued for cash	51,750	—	20,700	—
Miscellaneous	38,190	33,857	19,845	19,314
	40,305,608	33,274,831	17,230,234	13,959,507
USE OF WORKING CAPITAL				
Capital expenditures				
Lease acquisition	4,071,283	6,473,189	3,467,383	1,490,780
Plant and equipment	5,739,802	4,681,416	2,324,911	1,847,965
Exploration — geological and geophysical	4,261,682	3,237,061	2,447,781	1,445,549
Intangible drilling costs	16,402,558	8,503,294	7,854,627	4,490,747
Total capital, drilling and exploration expenditures	30,475,325	22,894,960	16,094,702	9,275,041
Investment in other companies	64,843	1,434,790	—	528,463
Decrease in prepaid gas revenue	263,443	150,282	113,864	84,663
Miscellaneous	318,778	293,905	144,179	10,611
	31,122,389	24,773,937	16,352,745	9,898,778
Increase in Working Capital	$ 9,183,219	$ 8,500,894	$ 877,489	$ 4,060,729

MAJOR BALANCE SHEET ITEMS, at June 30	1976	1975
Current assets	$ 85,258,391	$ 64,404,085
Current liabilities	19,175,044	17,424,315
Working capital	66,083,347	46,979,770
Properties, plant and equipment — net	117,291,138	109,961,174
Shareholders' equity	192,826,991	159,337,284

These statements include all normal adjustments and accruals, but are unaudited.

LITHOGRAPHED IN CANADA

To The Shareholders:

FINANCIAL

Consolidated net income for the six months ended June 30, 1976 amounted to $16.1 million ($1.88 per share) compared to $17.0 million ($1.99 per share) for the same period in 1975. Cash flow amounted to $40.2 million compared to $33.2 million for the corresponding period in 1975; an increase of 21%. Gross revenue from all sources increased 19% to $69.8 million, directly attributable to higher oil and gas prices. Intangible drilling expenditures, which are written-off as incurred, amounted to $16.4 million; almost double those incurred during the first half of 1975. The increase in drilling and exploration expenditures, together with the write-off of costs related to the abandonment of our interest in the Bangladesh concession and generally higher operating expenses, were the main contributing factors to the decline in earnings.

The Federal Government recently announced crude oil price increases of $1.05 per barrel effective July 1, 1976 and a further 70¢ on January 1, 1977. Natural gas prices were also increased by 15.5¢ per thousand cubic feet on July 1, 1976 and will be raised a further 10¢ on January 1, 1977. The border price for gas exported to the United States will also increase by 20¢ per thousand cubic feet on September 10 and a further 14¢ on January 1, 1977. While only a portion of these increases will flow through to the Company, they should nevertheless contribute substantially to the Company's cash flow and earnings; particularly in 1977.

PRODUCTION

Crude oil production declined 11% to 21,000 barrels daily during the first six months of 1976. This reduction was primarily as a consequence of the continuing curtailment of exports to the United States. Deliveries to Montreal through the recently completed InterProvincial PipeLine extension are expected to improve production rates during the second half of 1976. Condensate sales were down marginally to 7,000 barrels daily while propane and butane sales increased slightly to 6,300 barrels daily.

Natural gas sales averaged 245 million cubic feet daily during the six-month period, down nine million cubic feet (3%) daily from the same period last year. It is anticipated that this decrease will be partially offset in the second half of 1976. Revenue from sales increased 46% over the same period a year ago.

Sulphur sales continued to decline as a result of the reduced demand for phosphate fertilizer and were down to 255 long tons per day from 439 long tons per day in 1975. Revenue from sales declined by 65% due to further erosion of selling prices stemming from increased competition for existing markets both domestic and foreign.

EXPLORATION AND DRILLING

During the first six months of 1976, the Company participated in the drilling and completion of 114 wells, 68 of which were exploratory and 46 were development. The exploratory wells resulted in one oil well, 35 gas wells and 32 dry holes. Of the development wells, 10 were oil wells, 28 were gas wells and eight were abandoned. At June 30 there were also 16 exploration and 18 development wells in progress.

In the Mackenzie Delta region of the Northwest Territories, the second commitment well being drilled by the Delta 5 Group (Canadian Superior 20%), under a farmin agreement with Imperial Oil, is currently at 12,800 feet, approaching anticipated total depth.

In the Findley area of west central Alberta, where your Company has a 35% interest, the first followup well to the multi-zone gas discovery made in late 1975 has now reached total depth at 11,520 feet. Log analyses indicate confirmation of the gas-bearing zones of the discovery well and drillstem tests have also indicated gas in the Cretaceous and Jurassic formations.

INTERNATIONAL AREAS

In the Arabian Gulf, drilling has been completed on two offshore wells; one in the Emirate of Ras Al Khaimah, the other in the Emirate of Umm Al-Qaiwain. The Ras Al Khaimah well, in which the Company has an 8.4% interest, was drilled to a total depth of 16,050 feet. The well tested oil from two zones at calculated maximum rates of 2,200 barrels per day from the lower zone and 1,615 barrels per day from the upper zone; however, production rates on tests were not stabilized. The well is being temporarily plugged and abandoned and a followup confirmation well is being considered. Consideration is also being given to drilling a second exploratory test on a separate structure located approximately 15 miles to the east. The well in Umm Al-Qaiwain, in which the Company has a 25% interest, was drilled to a total depth of 16,200 feet and tested gas from two zones. The lower zone produced gas at 26 million cubic feet per day with 345 barrels of oil per day and the upper zone produced 15 million cubic feet per day with 130 barrels of oil per day. The well has been temporarily abandoned until it has been determined if the discovery has commercial significance.

On the Tunisian Concessions, in the Gulf of Hammamet, where Canadian Superior's interest is 16%, drilling has been completed on the second wildcat well at a total depth of 9,050 feet. The well is located 40 miles from the coast of Tunisia in 458 feet

Highlights

	1976	1975
Gross Revenue	**$147,504,232**	$127,228,198
Working capital provided from operations — *before drilling and exploration expenditures*	**$ 86,526,708**	$ 71,282,972
Net Income	**$ 38,381,177**	$ 34,363,054
Per Share	**$4.49**	$4.02
Working Capital at Year End	**$ 80,928,879**	$ 56,900,128
Average Gross Daily Sales:		
Crude Oil (Bbls.)	**21,837**	24,196
Condensate (Bbls.)	**6,734**	7,241
Propane and Butane (Bbls.)	**6,089**	6,144
Total Oil and Gas Liquids	**34,660**	37,581
Residue Gas (Mcf)	**234,697**	240,439
Sulphur (Long Tons)	**420**	369
Net Exploratory Acreage		
Canada	**6,563,030**	7,503,292
Outside Canada	**13,311,079**	9,377,892

Description of Business

Canadian Superior Oil Ltd. is a Canadian-based resource company engaged in worldwide exploration and development of oil, gas and mineral properties. Head offices are located in Calgary, Alberta and the Company currently has a staff of 440 employees.

Canadian Superior has maintained an active exploration program in Canada since the 1940's and in recent years has expanded the scope of its activities to include geologically promising areas throughout the world. Production is primarily centered in Western Canada where the Company holds extensive interests in hydrocarbon reserves.

Annual Meeting

The Annual and Special General Meeting of shareholders will be held on Wednesday, April 20, 1977 at 10:00 a.m. in the Glengarry Room, Calgary Convention Centre, Calgary, Alberta. A formal notice of this meeting, together with the proxy statement and form of proxy, is being mailed with this report.

Contents

President's Report

To The Shareholders:

The Company's consolidated net income for the year 1976 amounted to $38.4 million, or $4.49 per share, a gain of 12% over 1975 earnings of $34.4 million, or $4.02 per share. Funds generated from operations increased 21% to $86.5 million. Total revenues amounted to $147.5 million, up $20.3 million, or 16% over 1975. The higher operating revenues are primarily attributable to crude oil and gas price increases. Working capital at the year end amounted to $80.9 million as compared with $56.9 million a year earlier.

The financial results of the last quarter of 1976 were particularly gratifying with revenues from sales exceeding the average of the prior three quarters by approximately 32%.

Payments to all levels of government again rose substantially. Income taxes, royalties, mineral and property taxes totalled $84.2 million in 1976.

Production of crude oil and natural gas liquids declined by 7.5% to an average of 34,660 barrels per day. Natural gas sales were marginally lower at an average of 234.7 million cubic feet per day. Sulphur sales were up 14% to 420 long tons daily.

During 1976, the Company participated in the drilling of 210 wells in Canada and 52 wells in areas outside of Canada, as detailed elsewhere in this report. This intensive program resulted in drilling expenditures charged to income totalling $32.1 million as compared with $21.7 million in the prior year. This 48% increase was a factor which restrained the growth of earnings.

The directors of Canadian Superior and Alminex Limited made a joint announcement last August that an evaluation of each of the companies had been authorized for the purpose of considering the feasibility of an amalgamation. The independent evaluations are currently underway, but it is not anticipated that they will be completed until May, 1977.

In September, 1976, the Company entered into a loan agreement with two United States banks which provided for a $50 million line of credit. Subsequently, a further United States bank and one Canadian bank also became participants to the agreement to increase the line of credit to $100 million. The Company has not made any borrowings under the loan agreement to date.

Your Company intends to continue an aggressive exploration program in Canada as well as in other areas of the world where the geological and economic realities warrant it. We believe that our growth over the years is a reflection of the talents and dedication of our 440 employees. These strengths, coupled with our strong financial position and widespread participation in energy ventures, will enable your Company to meet the challenges and opportunities in the years ahead.

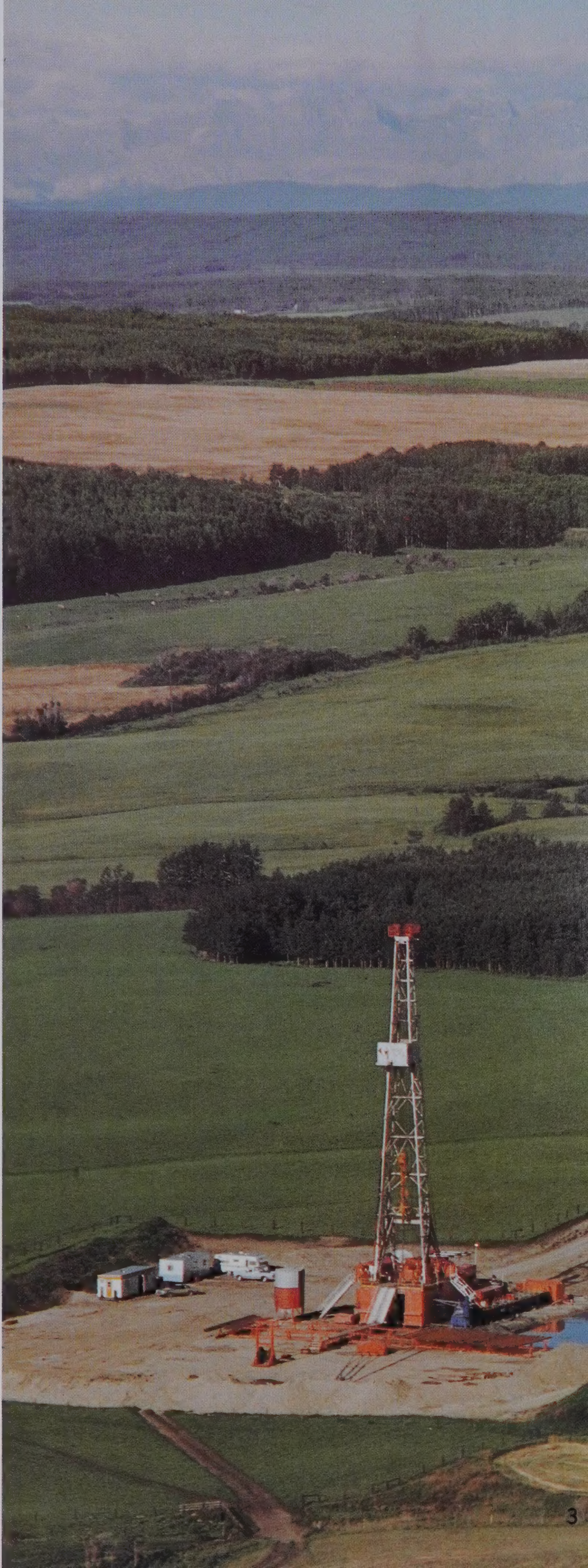
ON BEHALF OF THE BOARD,

A. E. Feldmeyer

President

March 3, 1977

Exploration and Development



Canada

The Company's exploration and development program in Canada, particularly in the Province of Alberta, continued at an accelerated pace during 1976. Canadian Superior participated in the drilling and completion of 210 wells, 96 of which were exploratory and 114 were development, as summarized below:

1976 Canadian Exploration and Development Drilling Results

	CANADA					
	B.C.	Alta.	Sask.	N.W.T.	Gross	Net
Oil	1	28	1	—	30	13.69
Gas	3	126	—	—	129	66.00
Abandoned	—	48	—	3	51	17.39
	4	202	1	3	210	97.08

West Central Alberta — Findley

In the Findley area of West Central Alberta, where your Company has a 35% interest, the first followup well to the multi-zone gas discovery made in late 1975 reached total depth at 11,520 feet in the summer of 1976. Log analyses indicated confirmation of the gas-bearing zones of the discovery well and tests have also indicated gas in the Cretaceous and Jurassic formations. Two more followup wells in this area recently commenced drilling; a step-out to the northwest, spudded on December 19, 1976, is currently drilling below 5,700 feet and the other well, approximately four miles southeast of the discovery, commenced drilling on January 11, 1977. The results of these wells should determine the significance and potential of the indicated multi-zone gas reservoir.

An exploratory well in Southwestern Alberta.

Northwestern Alberta — Bluesky — Shallow Gas

Exploratory drilling continued during 1976 in Northwestern Alberta in the search for shallow gas from the Bluesky formation. There were 23 successful gas wells completed in the Bede and Keg River areas of this region during the year. Canadian Superior's interest in these wells varies from 25% to 100%. An intensive development drilling program is currently under way in these areas.

Northeast Alberta

Fourteen successful shallow gas wells were drilled in the Algar, Charron, Duvernay, Slawa, Francis and Tower areas. Canadian Superior's interest in the wells varied from 33$^1/_3$% to 100%. At year end, production facilities were being constructed for the handling of gas from the Charron, Slawa and Tower fields.

Central Alberta

In the Garrington area of Central Alberta, the Company drilled four wholly-owned Glauconite oilwells and holds a royalty position in seven other new wells. Conservation facilities were expanded during the year to process additional casinghead gas deliveries and other facilities added to recover liquid products. The Company has a 20% interest in these facilities.

Drilling in Crossfield, Ferrier, Medicine River-Sylvan Lake and Twining resulted in six oilwells and 10 gas wells in which the Company's interests varied from 5% to 100%. At Davey Lake an eight million cubic feet per day gas dehydration and gathering facility was completed during 1976. Canadian Superior, as operator, owns a 33$^1/_3$% interest.

Southeastern Alberta

Development drilling of shallow gas from the Medicine Hat zone continued in the Atlee-Buffalo, Bindloss, Medicine Hat and Matziwin areas where 37 successful gas wells were completed. Canadian Superior has a 100% working interest in 25 of these wells and an interest ranging from 33$^1/_3$% to 55% in the balance.

Southern Alberta

In the Taber-Turin region of Southern Alberta, your Company participated in the drilling of eight oilwells (50% interest) and one gas well (18% interest). Studies are underway to determine the economic feasibility of waterflood-enhanced recovery and infill drilling in this area.

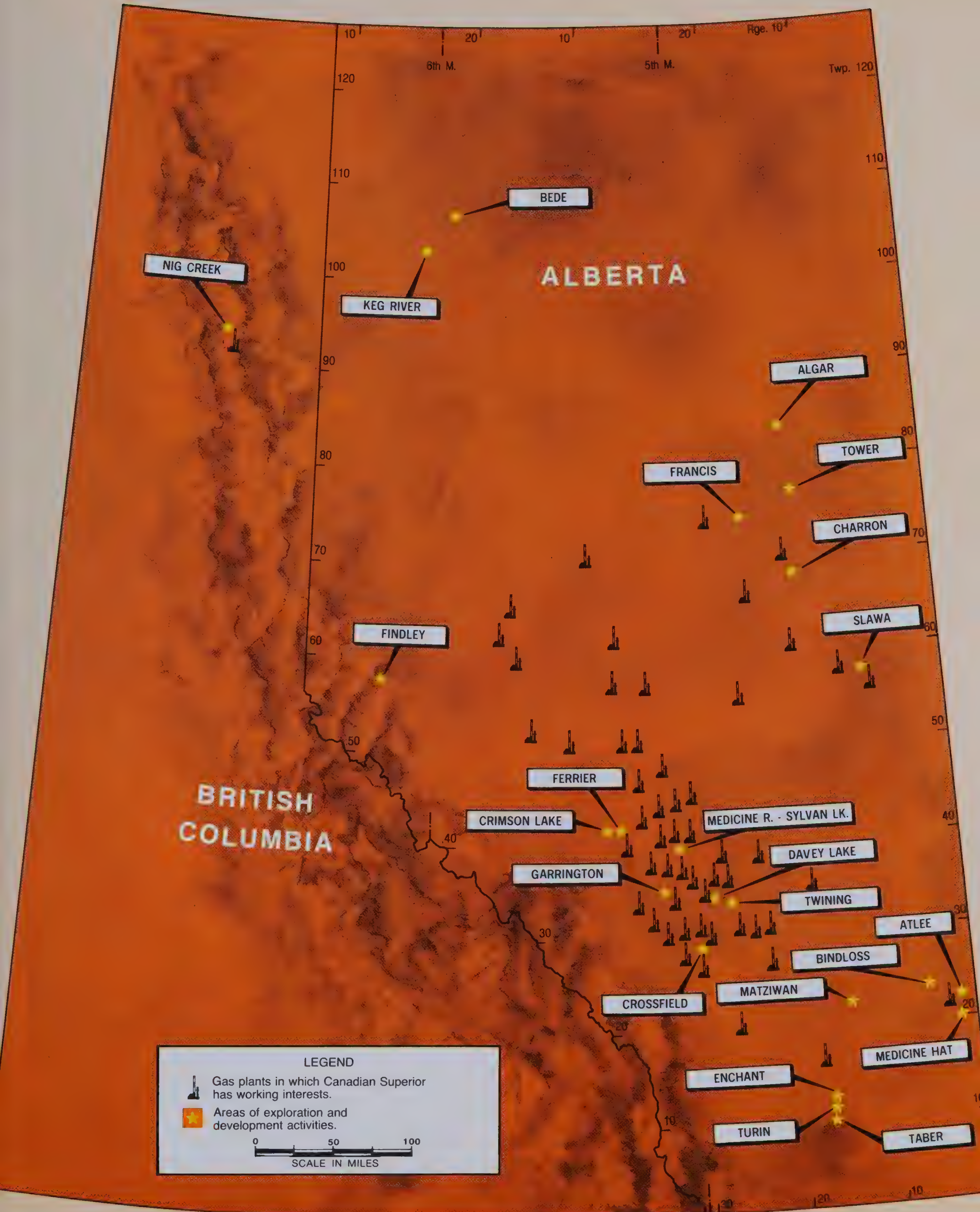
British Columbia

Three development gas wells, in which Canadian Superior has a 25% interest, were drilled in the Nig Creek field in Northeastern British Columbia.

In view of the improved economics, stemming from higher prices in British Columbia, the Company plans to increase its exploration and drilling activities during 1977 in the northeastern sector of the province.

Mackenzie Delta

In the Mackenzie Delta region of the Northwest Territories the ''Delta 5 Group'', in which Canadian Superior is an equal partner (20%), continued to drill the earning wells required under the farmin agreement with Imperial Oil Limited. The Group committed to drill a test well on each of three prospect areas. The results of drilling to date have been disappointing. The first commitment well, located on a man-made island in the Mackenzie Bay, was abandoned at 12,500 feet on February 27, 1976. The second well was abandoned on October 5, 1976 at a depth of 13,949 feet. The third and final commitment well commenced drilling on December 16, 1976 and is currently being abandoned at 10,200 feet. The Group has now earned interests varying from 25% to 35% in the three areas containing 141,438 permit acres.


ALBERTA
BRITISH COLUMBIA
BEDE
NIG CREEK
KEG RIVER
ALGAR
TOWER
FRANCIS
CHARRON
SLAWA
FINDLEY
FERRIER
CRIMSON LAKE
MEDICINE R. - SYLVAN LK.
DAVEY LAKE
GARRINGTON
TWINING
ATLEE
BINDLOSS
MATZIWAN
CROSSFIELD
MEDICINE HAT
ENCHANT
TURIN
TABER
6th M.
5th M.
Rge. 10
Twp. 120
LEGEND
Gas plants in which Canadian Superior has working interests.
Areas of exploration and development activities.
0 50 100
SCALE IN MILES

CANADIAN SUPERIOR'S WORLD-WIDE ACTIVITIES

International Areas

Canadian Superior has continued to expand its activities in the more geologically promising areas of the world and during 1976 properties were acquired in Egypt, Thailand, Belize and the United States. Canadian Superior's international exploration staff has compiled studies of the major sedimentary basins of the world in order to determine a systematic priority evaluation of the more prospective areas. The results of these studies will lend direction to the Company's international exploration activities in the years ahead.

United Arab Emirates — Arabian Gulf

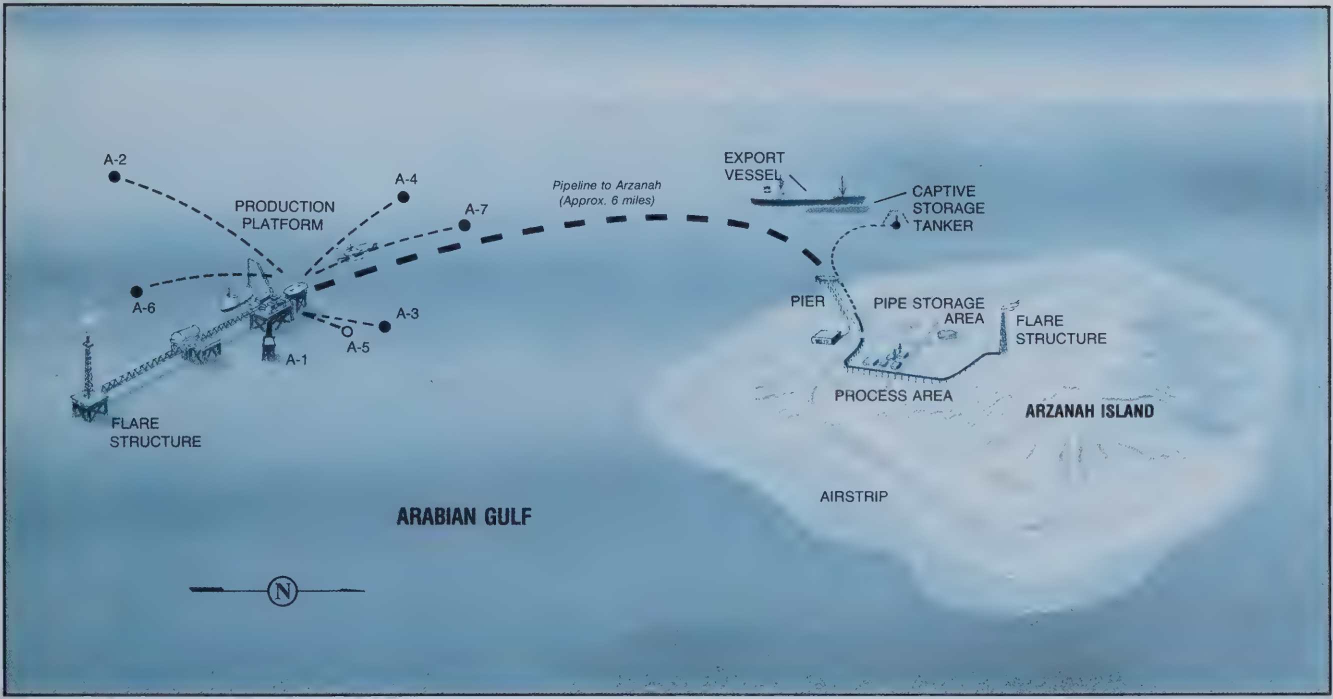
Umm Al-Qaiwain

In the offshore area of Umm Al-Qaiwain, in which Canadian Superior holds a 25% interest, an exploratory well was drilled to a depth of 16,200 feet and tested gas and small amounts of oil from two zones. A lower zone tested gas at 26 million cubic feet and 345 barrels of oil daily and an upper zone tested 15 million cubic feet of gas and 130 barrels of oil per day. The well has been temporarily abandoned pending determination of its commercial significance. Additional geophysical interpretation is currently in progress to help determine our future activities in this area.

Ras Al Khaimah

Offshore the Emirate of Ras Al Khaimah, the first exploratory well was drilled to a depth of 16,050 feet and tested oil from two zones at calculated rates of 2,200 barrels per day from a lower zone and 1,615 barrels per day from an upper zone. These rates, when considered with other technical aspects, were deemed non-commercial and the well was temporarily abandoned. A followup well is currently being independently drilled by the R. A. K. Government.

A second exploratory test is also drilling on a separate offshore structure 15 miles to the east. After partial relinquishment, your Company's interest is now 2.43% of the concession area.



Proposed Oil Production Facilities — Arzanah Field.

Abu Dhabi

Five oilwells on the Arzanah structure, offshore Abu Dhabi, have been drilled and a sixth well is currently in progress. Engineering and design for the construction of a 40,000 barrel per day production facility, to be located on the nearby Arzanah Island, is underway. It is anticipated these facilities will be in operation by mid-1978. Canadian Superior has a 10% working interest in this project.

An exploratory well drilled nine miles east of Arzanah Island, during the third quarter, was abandoned at 11,255 feet after testing non-commercial shows of oil and gas.

Oman

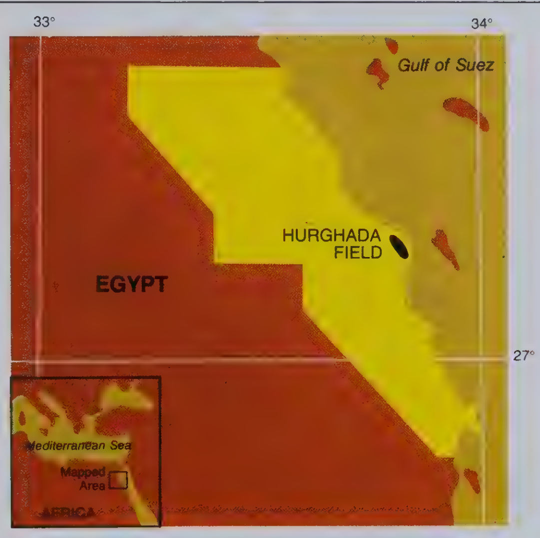
In the Arabian Sea, off the coast of Oman, where your Company has a $7^1/_2$% interest in a petroleum concession, a second exploratory well was drilled to a depth of 8,508 feet. The well encountered no shows of oil or gas and was abandoned on January 16, 1977.

Tunisia

In the Gulf of Hammamet, offshore Tunisia, Canadian Superior participated in the drilling of an exploratory well to a depth of 9,050 feet which tested oil at a rate of 1,790 barrels per day. Further evaluation of the commercial potential of the discovery is being made. Additional seismic work has recently been conducted to aid in formulating further plans for exploration in the area. Your Company's interest in this operation is 16%.

Egypt

An onshore concession agreement for petroleum exploration and production was entered into covering 2,000 square kilometers in the Hurghada area on the southwest shore of the Gulf of Suez. Canadian Superior has a $66^2/_3$% interest in the concession area. An extensive geophysical program was commenced by your Company in December, 1976.

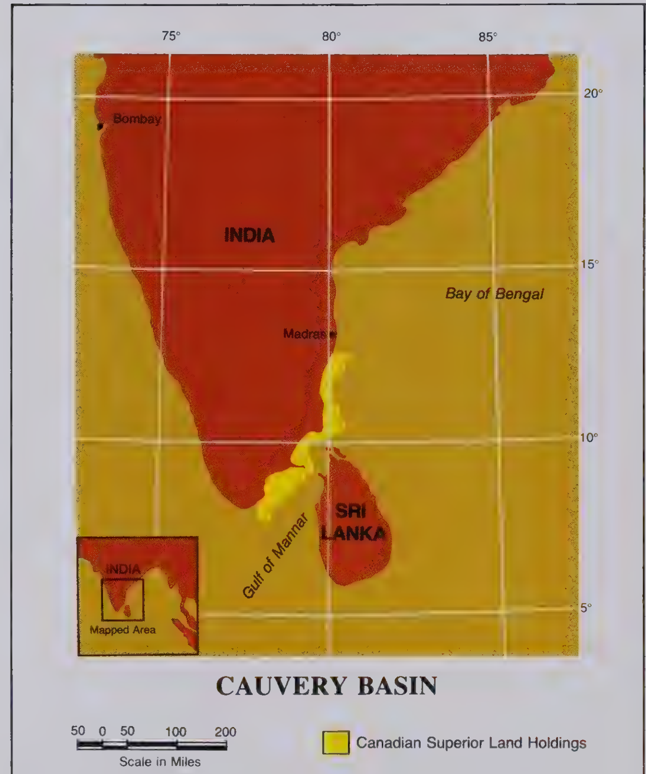


EGYPT — HURGHADA AREA

India

Final interpretation of the results of a detailed seismic program on the offshore Cauvery Basin permit between India and Sri Lanka is being made. It is anticipated that an exploratory well will be commenced in the spring of 1977. Your Company's interest in this project is 21.67%.

In the northwestern part of the Bay of Bengal, the second deep test was drilled and abandoned in the spring of 1976. No further activity is planned for this concession area.



CAUVERY BASIN

Thailand

During 1976, two wells were drilled in the Gulf of Thailand, the first was abandoned at a depth of 10,010 feet after encountering minor amounts of hydrocarbons, while the second well, drilled to 8,050 feet, discovered gas and condensate from 12 zones, some of which had a high carbon dioxide content. Studies are currently underway to assess the possibilities of marketing the gas and the feasibility of constructing a pipeline to Bangkok is being investigated by the Government. Further geological studies are being carried out to evaluate the total hydrocarbon potential of the area. Canadian Superior's interest varies from 5% to 16%.

Bangladesh

Due to lack of encouragement from seismic and geological programs, Canadian Superior terminated its activities in Bangladesh and surrendered its permit area.

Bolivia

In the Tarija area of Eastern Bolivia, an exploratory well commenced drilling on December 26, 1976 and is being abandoned at 8,610 feet. Canadian Superior's interest in this Production-sharing Contract is 25%.

Papua New Guinea

Under a farmout agreement with a major operator, a deep test well commenced drilling in the Gulf of Papua on February 9, 1977. The Company's interest in the farmed out area will be $7^1/_2$%.

Gulf of Honduras

In the Gulf of Honduras, offshore Guatemala, the second exploration well, in which your Company has a 12.5% interest, was abandoned at 13,875 feet. On the adjacent area to the north, offshore Belize, a farmout of our prospecting licences to a major company has been concluded. That company has recently conducted a seismic program and will commence drilling a deep exploratory well in the spring of 1977. Canadian Superior's interest will be 13.5%.

GUATEMALA — BELIZE

North Sea

The Company's share of revenues from its interests in the Hewett and Leman gas fields amounted to $1.4 million, up marginally from 1975.

In the United Kingdom sector of the North Sea, a third well drilled on the Glen structure (Block 21/2) was abandoned on December 3, 1976. Drilling commenced late in December, 1976 on the second well in Block 211/11, northeast of the Shetland Islands. This well, drilled jointly with the owners of the adjacent Block 211/16, was abandoned on February 20, 1977. Canadian Superior contributed 4% of the cost of this well.

In the Netherlands sector, in Block K-12, a second deep commitment well, drilled at no cost to your Company under a farmout agreement, was completed as a gas discovery. Additional drilling is anticipated to assess the commercial significance of this discovery. Canadian Superior's interest in this block is now 1.67%.

United States — Gulf of Mexico

Total revenues derived from the Company's share of operations in offshore Texas and Louisiana during 1976 amounted to $5,677,000, an increase of 11% over the prior year. Approximately 70% of 1976 operating income was derived from gas sales (which averaged 20.4 million cubic feet daily) and 30% from condensate and liquid products (which averaged 506 barrels daily).

According to the revised 'vintage' system determined by the Federal Power Commission on November 5, 1976, varying price increases were provided for gas sold in interstate commerce dependent upon the dates wells were drilled. As a result, increased revenues of approximately $733,000 related to gas sales retroactive to July 27, 1976 were included in income in the Company's accounts during the fourth quarter of 1976.

Further exploration and development is planned for the Gulf of Mexico during 1977 and new fields that come on stream will benefit from the higher gas prices as authorized by the Federal Power Commission.

During 1976, the Company, through its wholly-owned subsidiary, participated in the drilling of 14 exploratory wells in the offshore areas of Texas and Louisiana; one of which resulted in a gas discovery and 13 were abandoned. One well was in progress at the year end. Twenty-four development wells were drilled in which the Company had interests ranging from 0.75% to 10%, resulting in 21 gas wells and three abandonments. A further four wells were in progress at the year end.

Production facilities are awaiting pipeline connections on South Marsh Island Blocks 243 and 249 in which the Company has a 10% and 7% interest respectively. It is anticipated that production may commence sometime during the third quarter of 1977. Construction of two platforms designed for Blocks A-342 and A-343, in which your Company has a 6% interest, is well under way. Initial production from these facilities however, is not expected until 1978.

United States — Other Areas

During 1976 Canadian Superior acquired a 5% interest in Gulf of Alaska Blocks 120 and 329 at a cost of $1.7 million. In the Baltimore Canyon area offshore the east coast, the Company also acquired a 5% interest in Block 230 at a Federal lease sale on August 17, 1976 at a cost of $1.2 million. Subsequently, a district court judge issued a decision nullifying the sale. This decision will be appealed.

Exploratory Oil and Gas Acreage Holdings

	Gross	Net
CANADA		
Western Canada	5,154,211	3,646,026
Beaufort Sea	4,134,266	1,818,967
Mackenzie Delta — onshore	656,541	256,184
Yukon and Northwest Territories	1,126,712	285,612
Arctic Islands	1,129,228	456,783
East Coast	1,239,723	99,458
Total Canada	13,440,681	6,563,030
INTERNATIONAL		
Arabian Gulf	4,537,236	369,515
Australia — Bonaparte	1,790,051	314,511
Belize	995,200	238,848
Bolivia	4,908,645	1,227,161
Egypt	494,210	329,474
Guatemala	611,474	76,434
India — Bay of Bengal	1,235,526	68,572
— Cauvery Basin	6,503,811	1,409,160
Indonesia — Arafura Sea	39,995,520	3,999,552
— Northeast Kalimantan	3,511,119	438,890
Kenya	6,671,842	2,223,947
Netherlands — North Sea	206,086	3,435
Papua New Guinea	3,379,200	522,880
Philippines	2,993,193	465,298
Thailand	15,937,369	1,310,857
Tunisia — Cap Bon	1,519,203	244,151
United Kingdom — North Sea	615,860	38,628
United States — Gulf Coast Area	240,831	29,766
Total International	96,146,376	13,311,079
TOTAL ACREAGE	109,587,057	19,874,109

Viewing a mineral prospect — Yukon Territory.

Minerals Exploration

During 1976, your Company was involved in mineral exploration in Canada, the United States and Ireland. Some preliminary investigations were also made in other countries. Most of the effort was concentrated in Canada and the United States where work was initiated or continued on 27 projects. Fourteen of these involve properties acquired by staking or government permits and 13 by option or lease from individuals or other companies. Drilling was carried out on 13 properties.

Your Company contributed to the cost of a feasibility study made of the Minto area copper property, Yukon Territory, in which the Company holds a 16.7% interest. The results indicate that the market price of copper must increase substantially before this property becomes economically viable. The same conclusion applies to the Big Onion porphyry-copper property in British Columbia where drilling has indicated a medium-sized deposit.

During 1976, Canadian Superior's share of expenditures on mineral exploration totalled \$1.4 million. This year's budget provides for appreciably increased spending.

Plans for placing the Idaho DeLamar silver-gold property into production are proceeding on schedule. Milling operations are expected to begin during the spring of 1977. Canadian Superior's interest is 22.25%. Your Company is actively searching for other precious metal deposits in Idaho and initial drilling on one optioned property yielded encouraging results.

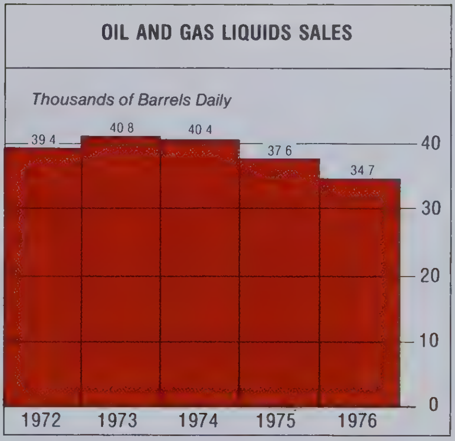
Company-operated gas plant complex at Harmattan, Alberta.

Production and Sales

Crude Oil and Condensate

Sales of crude oil and condensate averaged 28,571 barrels per day during 1976, down 9% from 1975. The decline, due to export limitations to the United States, was partially offset by shipments to Montreal during the last half of 1976. Industry's total deliveries to Montreal reached 250,000 barrels per day by year end and are expected to continue at this level throughout 1977.

Crude oil and condensate price increases were agreed to by Federal and provincial governments and, as a result, a price increase of $1.05 per barrel became effective on July 1, 1976 and another increase of $.70 per barrel on January 1, 1977 bringing the current average Alberta wellhead price to approximately $9.75 per barrel.



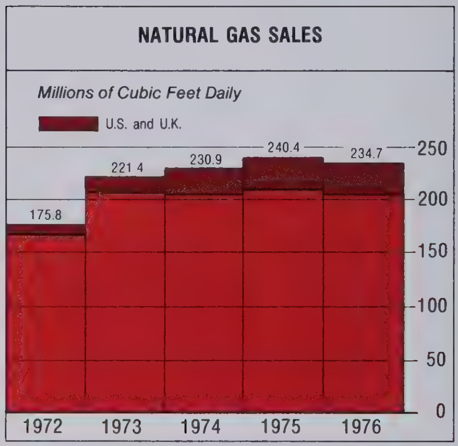
Liquefied Petroleum Gases

Propane and butane sales were down marginally in 1976, however, prices remained strong and revenue from sales increased 15% to $11.8 million.

Natural Gas

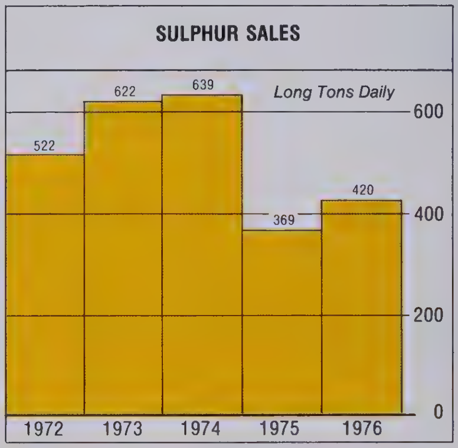
Sales of natural gas amounted to an average of 235 million cubic feet per day, down 2% from the previous year. Prices which were permitted to increase in stages during the last half of 1976 resulted in a 38% increase in revenue from this source. Natural gas sales amounted to $63.0 million and accounted for 44% of the Company's total operating revenues.

A short-term surplus of natural gas in Alberta became evident during 1976. Late in the year, gas purchasers virtually ceased contracting for new gas in the province and have indicated that their purchasing activities could be curtailed for the coming two to four years, thus resulting in the delay of new gas discoveries being placed on production as soon as otherwise might have been expected.



Sulphur

Sulphur sales increased 14%, however, the price continued to soften during the year because of increased competition for existing markets. Revenue from sulphur sales decreased 29% to $2.4 million.



Fertilizer

The Agri-Sul fertilizer plant, in which your Company has a 50% interest, came on stream in the spring of 1976. This plant was designed to manufacture 35,000 tons annually of granular water-degradable sulphur which is used as a fertilizer for sulphur deficient soils. A market is currently being developed for this product.

1976 Sales of Petroleum Products by Major Fields and Areas

	Oil (Bbls.)	Condensate (Bbls.)	L.P.G. (Bbls.)	Gas (Mcf)	Sulphur (L. Tons)	Operating Revenue
CANADA						
Alberta						
Harmattan	1,981,683	1,050,743	849,253	16,307,965	26,826	$ 39,484,694
Crossfield-Carstairs	33,748	293,087	322,803	19,572,523	89,539	21,134,494
Ferrier	540,249	216,897	450,039	9,320,153	—	12,253,835
Innisfail	903,828	36,363	—	702,127	9,789	7,590,638
Kaybob	—	398,378	229,312	1,550,021	15,547	5,524,263
Pembina	831,499	10,479	28,186	732,418	—	5,442,771
Lone Pine Creek	—	81,759	—	4,113,210	50	4,253,227
Clive	506,698	11,331	46,775	773,458	—	3,873,796
Garrington	97,744	41,835	62,569	1,968,869	—	3,495,742
Olds	164,787	19,783	25,537	751,671	4,881	2,153,620
Sylvan Lake	16,851	25,208	44,803	1,630,184	—	1,956,683
Gilby	13,882	21,916	31,245	1,484,866	—	1,541,765
Minnehik Buck Lake	—	25,020	—	1,800,340	—	1,349,157
Swan Hills	219,423	2,021	13,189	15,545	—	1,312,178
Nevis	20,255	15,555	15,467	930,960	3,853	1,131,985
Other fields	1,117,970	73,979	53,048	8,488,735	3,057	14,243,027
	6,448,617	2,324,354	2,172,226	70,143,045	153,542	126,741,875
Saskatchewan						
Steelman	378,585	—	—	156,315	—	1,783,075
Weyburn	335,383	—	—	—	—	1,410,781
Midale	264,383	—	—	—	—	1,213,297
Other fields	127,288	—	—	266,747	—	662,808
	1,105,639	—	—	423,062	—	5,069,961
British Columbia						
Inga	248,577	—	—	727,816	—	1,523,431
Other fields	86,448	1,159	—	2,592,653	—	1,308,266
	335,025	1,159	—	3,320,469	—	2,831,697
Manitoba	103,072	—	—	—	—	584,347
CANADA	7,992,353	2,325,513	2,172,226	73,886,576	153,542	135,227,880
INTERNATIONAL						
United Kingdom	—	10,086	—	4,542,680	—	1,366,204
United States	—	128,774	56,523	7,469,717	—	5,676,704
GRAND TOTAL	7,992,353	2,464,373	2,228,749	85,898,973	153,542	$142,270,788

Notes: *Does not include fertilizer sales (3,115 tons) totalling $342,478.*

Volumes are stated as gross before royalties; operating revenue is expressed as net after royalties and mineral taxes.

Reserves

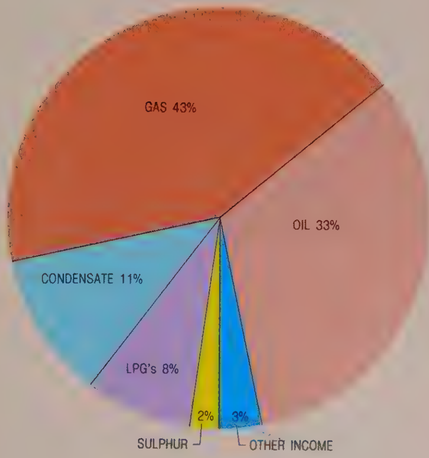
Canadian Superior's estimated remaining recoverable reserves as determined by its engineering staff are detailed in the accompanying table. Reserves are shown as the Company's ownership interest before deduction of royalties and mineral taxes. Present Canadian royalty rates are dependent on, and can vary significantly with, changes in price, production rates and other factors. Canadian Superior believes that showing reserves before deduction of royalty provides more reliable information for comparative purposes. Production data is also reported on this basis. During 1976 Canadian Superior's overall effective royalty rate (including mineral taxes) was 24% of sales value.

Proven reserves are those that geological and engineering information indicate with reasonable certainty will be recovered in future years under existing economic and operating conditions. Reserves are not included for potential enhanced recovery until the anticipated reservoir response has been confirmed. Proven developed reserves are those which are expected to be produced through facilities presently installed while proven undeveloped reserves are those which will require additional capital investment before production can commence.

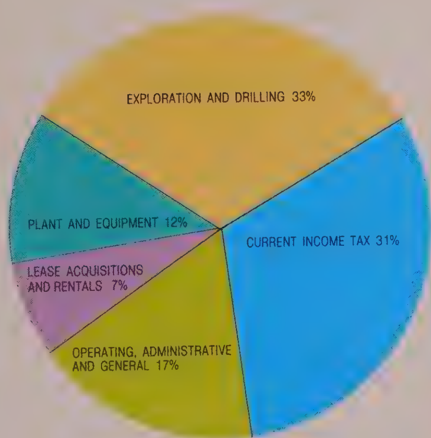
Estimated Remaining Recoverable Reserves
at December 31, 1976

	Crude Oil and Natural Gas Liquids (Bbls.)		Natural Gas (MMcf)		Sulphur (Long Tons)	
	Proven Developed	**Proven Undeveloped**	**Proven Developed**	**Proven Undeveloped**	**Proven Developed**	**Proven Undeveloped**
CANADA						
Alberta	148,735,000	3,428,000	1,518,300	355,200	5,980,000	3,806,500
Saskatchewan	9,549,000	—	6,200	4,800	—	—
British Columbia	2,569,000	—	52,300	5,200	—	—
Manitoba	809,000	—	—	—	—	—
	161,662,000	3,428,000	1,576,800	365,200	5,980,000	3,806,500
UNITED STATES	636,000	447,000	56,700	52,400	—	—
UNITED KINGDOM	—	—	36,900	—	—	—
MIDDLE EAST	—	3,360,000	—	—	—	—
Consolidated total	162,298,000	7,235,000	1,670,400	417,600	5,980,000	3,806,500

REVENUES

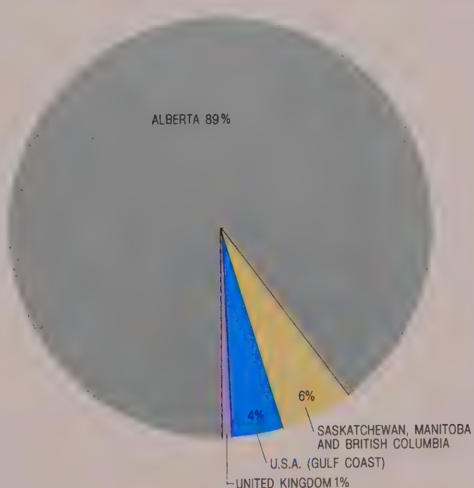


MAJOR EXPENDITURES



1976 Financial Statements

GEOGRAPHICAL SOURCE OF OPERATING REVENUE



Canadian Superior Oil Ltd.

Consolidated Statement of Income and Retained Earnings

For the Years Ended December 31, 1976 and 1975

	1976	1975
Income		
Operating income, less royalties and mineral taxes	**$142,613,266**	$120,612,455
Interest, dividends and other income	**4,890,966**	6,615,743
	147,504,232	127,228,198
Expenses		
Operating, administrative and general expenses	**21,243,986**	17,337,826
Rents of undeveloped properties	**1,991,124**	2,470,937
Exploration — geological and geophysical	**8,990,903**	7,161,549
Intangible drilling expenditures		
Exploratory	**26,823,645**	18,202,927
Development	**5,276,520**	3,522,894
Depreciation	**7,183,419**	6,530,844
Depletion	**977,844**	992,440
Leases abandoned	**4,329,200**	4,609,264
	76,816,641	60,828,681
Income Before Income Taxes	**70,687,591**	66,399,517
Provision for income taxes		
Current	**37,742,414**	36,136,463
Deferred	**(5,436,000)**	(4,100,000)
	32,306,414	32,036,463
Net Income	**38,381,177**	34,363,054
Retained Earnings at Beginning of Year	**137,000,623**	102,637,569
Retained Earnings at End of Year	**$175,381,800**	$137,000,623
Average Shares Outstanding	**8,555,828**	8,553,311
Net Income Per Share based on average number of shares outstanding	**$4.49**	$4.02

Canadian Superior Oil Ltd.

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1976 and 1975

	1976	1975
Source of Working Capital		
Net income	**$38,381,177**	$34,363,054
Add charges to income not requiring the use of working capital including depreciation, depletion, leases abandoned and deferred income taxes	**7,054,463**	8,032,548
	45,435,640	42,395,602
Add drilling and exploration expenditures	**41,091,068**	28,887,370
Working capital provided from operations before drilling and exploration expenditures	**86,526,708**	71,282,972
Capital stock issued for cash (Note 4)	**70,925**	6,210
Miscellaneous	**314,626**	186,656
	86,912,259	71,475,838
Use of Working Capital		
Capital expenditures		
Lease acquisition	**6,438,521**	9,083,101
Plant and equipment	**14,456,907**	12,245,511
Exploration — geological and geophysical	**8,990,903**	7,161,549
Intangible drilling costs	**32,100,165**	21,725,821
Total capital, drilling and exploration expenditures	**61,986,496**	50,215,982
Investment in other companies	**96,633**	2,304,015
Decrease in prepaid gas revenue	**492,718**	509,155
Miscellaneous	**307,661**	25,434
	62,883,508	53,054,586
Increase in Working Capital	**24,028,751**	18,421,252
Working Capital at Beginning of Year	**56,900,128**	38,478,876
Working Capital at End of Year	**$80,928,879**	$56,900,128
Changes in Components of Working Capital		
Increase (decrease) in current assets		
Cash	**$ (180,096)**	$ 553,566
Short term investments	**10,459,402**	21,470,888
Accounts receivable	**(779,837)**	14,384,824
Inventories	**(1,729,452)**	2,565,565
Net increase in current assets	**7,770,017**	38,974,843
Increase (decrease) in current liabilities		
Accounts payable	**(3,796,710)**	15,932,717
Income taxes payable	**(12,462,024)**	4,620,874
Net increase (decrease) in current liabilities	**(16,258,734)**	20,553,591
Increase in Working Capital	**$24,028,751**	$18,421,252

Canadian Superior Oil Ltd.

Consolidated Balance Sheet at December 31, 1976 and 1975

Assets

	1976	1975
Current Assets		
Cash	$ 1,090,382	$ 1,270,478
Short term investments, at cost	63,070,118	52,610,716
Accounts receivable	39,540,890	40,320,727
Inventories, at lower of cost or net realizable value		
Sulphur and liquid products	4,205,759	5,215,438
Materials and supplies	3,102,605	3,822,378
	111,009,754	103,239,737
Investments, at cost (Note 2)		
McIntyre Mines Limited (quoted market value 1976 $3,224,613; 1975 $4,162,922)	9,764,713	9,764,713
Falconbridge Nickel Mines Limited (quoted market value 1976 $692,250; 1975 $565,500)	1,729,290	1,729,290
Other investments	5,554,837	5,486,411
	17,048,840	16,980,414
Properties, Plant and Equipment, at cost (Note 1)		
Undeveloped properties	46,531,852	45,493,755
Producing properties	29,855,319	28,784,095
Production equipment	63,197,499	55,183,204
Gas plants	52,984,034	49,933,968
Other property and equipment	9,905,151	6,983,265
	202,473,855	186,378,287
Less: Accumulated depreciation and depletion	79,656,070	71,679,049
	122,817,785	114,699,238
Deferred Charges		
Prepaid lease rentals	856,410	856,020
Other	2,812,937	2,505,666
	3,669,347	3,361,686
	$254,545,726	$238,281,075

Liabilities

	1976	1975
Current Liabilities		
Accounts payable	**$ 27,866,388**	$ 31,663,098
Income taxes payable	**2,214,487**	14,676,511
	30,080,875	46,339,609
Prepaid Gas Revenue	**1,483,101**	1,975,818
Deferred Income Taxes	**7,812,000**	13,248,000
Shareholders' Equity		
Share capital (Note 4)		
Authorized:		
4,000,000 First Preferred shares of $25 par value		
15,000,000 Common shares of $1 par value		
Issued and outstanding:		
8,556,936 Common shares (1975 — 8,553,586)	**8,556,936**	8,553,586
Capital in excess of par value	**31,231,014**	31,163,439
Retained earnings per accompanying statement	**175,381,800**	137,000,623
	215,169,750	176,717,648
Commitments and Contingent Liabilities (Note 5)		
	$254,545,726	$238,281,075

Approved by the Board

G. E. Feltmeyer Director

J. Norman Director

Notes to Consolidated Financial Statements

1. Accounting policies:

The consolidated financial statements include the accounts of Canadian Superior Oil Ltd. and its subsidiaries, all of which are wholly-owned.

The costs of petroleum and natural gas interests are initially capitalized. Property costs are transferred from undeveloped to producing properties when production commences; costs of properties abandoned are charged against income when the properties are surrendered. Depletion of producing properties is provided by the unit of production method based on estimated recoverable reserves of oil and gas. Accumulated depletion as at December 31, 1976 amounted to $7,632,446 (1975 — $6,654,603).

Exploration expenditures and intangible drilling expenditures applicable to both producing wells and dry holes are charged to income as incurred.

Depreciation is provided by the diminishing balance method at the following rates —

Production equipment (excluding production platforms)	30%
Production platforms and gas gathering systems	10%
Gas plants	10%

During the year, the Company reclassified production platforms and gas gathering systems from gas plants and related facilities to production equipment. The 1975 figures have been restated for comparative purposes.

The Companies follow the allocation method of accounting for income taxes.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis —

Current assets and liabilities — at rate of exchange at the year end except for inventories which are translated at historical rates.

Other assets and liabilities — at historical rates of exchange.

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated at the same basis as the related assets.

2. Investments:

Investments are carried at cost. At December 31, 1976 the cost of investments with quoted market values exceeded the market value of such investments by $7,986,836 (1975 — $7,594,087). In the opinion of management, such excess of cost over market does not represent a permanent impairment in value and accordingly no write-down is required under Canadian generally accepted accounting principles.

In the United States the Financial Accounting Standards Board's Statement 12 ''Accounting for Certain Marketable Securities'', which is applicable to U.S. companies, requires that marketable securities be carried at the lower of cost or market. When the securities are classified as non-current assets, changes in market value are to be included in a ''valuation allowance'' which is recorded in the equity section of the balance sheet when the change is not considered to be a permanent decline.

Had the Companies followed FASB 12, investments would have been reduced by $7,986,836 at December 31, 1976 (1975 — $7,594,087) with a corresponding decrease in shareholders' equity. No charge would be made against earnings.

3. Lines of credit:

During 1976 the Company entered into a loan agreement with three U.S. banks and one Canadian bank which provides that the Company may borrow at any time through September 1, 1979 up to U.S. $25,000,000 from each bank. Twenty-five percent of the principal amount outstanding on September 1, 1979 will be payable in instalments between December, 1979 and September, 1984 and the balance will be payable in instalments between December, 1984 and September, 1986.

The loan agreement contains the following restrictions —

(i) The Company will not declare or pay any cash dividend, except that it may pay cash dividends out of its paid-in surplus not to exceed an aggregate of Cdn $40,000,000 plus annual cash dividends which do not exceed 50% of net earnings.

(ii) The Company will not allow consolidated working capital to be less than Cdn $20,000,000 and will not allow the ratio of consolidated current assets to consolidated current liabilities to be less than 1.5 to 1.0.

(iii) The Company will not allow consolidated tangible net worth to be less than Cdn $160,000,000.

(iv) The Company will not allow the ratio of consolidated debt to consolidated tangible net worth to be more than 1.0 to 1.0.

At December 31, 1976 the Company had not made any borrowings under the loan agreement. The Company is required to pay a standby fee of 1/4 of 1% per annum on the funds not drawn down.

4. Share capital:

On May 3, 1976 Supplementary Letters Patent were issued increasing the Company's authorized capital by the creation of an additional 5,000,000 common shares of a par value of $1 each and by the creation of 4,000,000 first preferred shares of a par value of $25 each.

During 1976 options on 3,350 shares were exercised for a cash consideration of $70,925 (1975 — 300 shares for a cash consideration of $6,210). As at December 31, 1976 options on 42,880 shares at prices ranging from $20.70 to $28.60 (of which 37,500 were granted to directors and officers) were outstanding, and 51,700 were available for future grants. No options were granted in 1976 or 1975. The outstanding options expire in 1984 except for options on 1,330 shares which expire in 1979.

5. Commitments and contingent liabilities:

The Company has a lease on office premises which expires in 1990 (with an option to renew). Under the terms of the lease, the Company is required to pay an annual net rental of $737,000.

The Company might be required under certain conditions to make payments under guarantee and other contractual arrangements principally in connection with —

(a) pipe line transportation, and

(b) the issuance to various governments and organizations of non-interest bearing demand promissory notes and letters of credit to be held as work performance deposits in respect of exploratory obligations.

The contingent liability under such arrangements does not exceed $10,600,000.

6. Quarterly financial information — Unaudited:

Information with respect to 1975 has not been subjected to a limited review by Price Waterhouse & Co.

	1976	1975
	(thousands)	
Income — First quarter	**$ 38,703**	$ 32,277
— Second quarter	**31,124**	26,316
— Third quarter	**33,549**	30,027
— Fourth quarter	**44,128**	38,608
	$147,504	$127,228
Exploration and drilling expenses		
— First quarter	**$ 10,362**	$ 5,804
— Second quarter	**10,302**	5,936
— Third quarter	**9,136**	6,218
— Fourth quarter	**11,291**	10,929
	$ 41,091	$ 28,887
Operating, administrative and other expenses		
— First quarter	**$ 8,841**	$ 8,354
— Second quarter	**9,863**	7,808
— Third quarter	**8,627**	8,322
— Fourth quarter	**8,395**	7,457
	$ 35,726	$ 31,941
Total expenses	**$ 76,817**	$ 60,828
Provision for income taxes		
— First quarter	**$ 8,498**	$ 7,453
— Second quarter	**5,903**	6,249
— Third quarter	**7,733**	7,999
— Fourth quarter	**10,172**	10,336
	$ 32,306	$ 32,037
Net income		
— First quarter	**$ 11,002**	$ 10,666
— Second quarter	**5,056**	6,323
— Third quarter	**8,053**	7,488
— Fourth quarter	**14,270**	9,886
	$ 38,381	$ 34,363
Earnings per share (in dollars)		
— First quarter	**$1.29**	$1.25
— Second quarter	**.59**	.74
— Third quarter	**.94**	.88
— Fourth quarter	**1.67**	1.15
	$4.49	$4.02

7. Employees' retirement plans:

Employees of the Company and its subsidiaries are eligible for participation in a non-contributory pension plan after completion of one year of service. Certain employees who were originally employees of The Superior Oil Company have elected to participate in the pension plan of that company. The cost of their participation is borne by Canadian Superior Oil Ltd. The estimated annual cost of these plans was $785,326 in 1976 (1975 — $653,428). The benefits payable under the plans are provided by funded trusts.

8. Statutory information:

During 1976 there were eleven directors. Their total remuneration and directors' fees in their capacities as directors amounted to $54,500 (1975 — $46,000). There were ten officers (four of whom were also directors) whose total remuneration as officers amounted to $777,410 (1975 — $773,720).

Auditors' Report

To the Shareholders of
CANADIAN SUPERIOR OIL LTD.

We have examined the consolidated balance sheet of Canadian Superior Oil Ltd. and its subsidiaries as at December 31, 1976 and 1975 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1976 and 1975 and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

February 11, 1977
CALGARY, Alberta.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Five Year Sum

Financial Information

	1976	1975	1974	1973	1972
INCOME AND RETAINED EARNINGS (Amounts in thousands of dollars)					
Income					
Operating income	**$142,613**	$120,612	$ 87,479	$59,267	$44,563
Interest, dividends and other income	**4,891**	6,616	6,939	2,803	1,834
	147,504	127,228	94,418	62,070	46,397
Expenses					
Operating, administrative and general	**21,245**	17,338	14,377	12,406	10,862
Rents of undeveloped leases	**1,991**	2,471	2,093	2,205	2,225
Exploration expenses	**8,991**	7,162	7,029	5,406	4,430
Intangible drilling expenditures					
Exploratory	**26,824**	18,203	7,432	5,747	6,547
Development	**5,276**	3,523	2,205	2,535	1,131
Leases abandoned	**4,329**	4,609	3,867	2,697	1,093
Provision for depreciation, depletion and amortization	**8,161**	7,523	6,915	6,730	6,397
	76,817	60,829	43,918	37,726	32,685
Income before income taxes	**70,687**	66,399	50,500	24,344	13,712
Provision for income taxes					
Current	**37,742**	36,136	21,348	11,060	6,315
Deferred	**(5,436)**	(4,100)	(1,404)	(2,854)	(1,022)
	32,306	32,036	19,944	8,206	5,293
Net income	**38,381**	34,363	30,556	16,138	8,419
Retained earnings at beginning of year	**137,001**	102,638	72,082	55,944	47,525
Retained earnings at end of year	**$175,382**	$137,001	$102,638	$72,082	$55,944
Average shares outstanding	**8,555,828**	8,553,311	8,551,403	8,533,331	8,507,302
Net income per share *(in dollars)* **based on average number of shares outstanding**	**$4.49**	$4.02	$3.57	$1.89	$0.99
OTHER FINANCIAL DATA (Amounts in thousands of dollars)					
Working capital provided from operations — *before drilling and exploration expenditures*	**$ 86,527**	$ 71,283	$ 56,600	$36,399	$26,995
Working capital at year end	**$ 80,929**	$ 56,900	$ 38,479	$18,636	$16,974
Capital, exploration and drilling expenditures					
Oil and gas properties	**$ 6,438**	$ 9,083	$ 12,497	$ 7,580	$ 7,445
Plant and equipment	**14,457**	12,245	5,775	5,839	11,074
Intangible drilling	**32,100**	21,726	9,637	8,282	7,678
Exploration — geological and geophysical	**8,991**	7,162	7,029	5,406	4,430
	$ 61,986	$ 50,216	$ 34,938	$27,107	$30,627

ry of Operations

Operating Data

	1976		1975		1974		1973		1972	
	Gross	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Wells drilled and completed										
Exploratory — productive	**64**	**29**	34	11	45	12	21	6	24	7
— abandoned	**58**	**15**	54	12	80	17	66	14	78	29
Development — productive	**122**	**52**	77	30	84	15	71	13	40	7
— abandoned	**18**	**5**	14	3	14	1	13	2	8	1
	262	**101**	179	56	223	45	171	35	150	44

	1976	1975	1974	1973	1972
Gross daily sales:					
Crude oil (Bbls.)	**21,837**	24,196	26,929	28,390	26,134
Condensate (Bbls.)	**6,734**	7,241	7,536	7,755	8,067
Propane and butane (Bbls.)	**6,089**	6,144	5,892	4,692	5,218
Total oil and gas liquids (Bbls.)	**34,660**	37,581	40,357	40,837	39,419
Residue gas (Mcf)	**234,697**	240,439	230,944	221,365	175,836
Sulphur (Long tons)	**420**	369	639	622	522
Number of employees	**440**	423	413	397	386

Market and Dividend Information

		1976	1975	1974	1973	1972
Sales price of common stock (per share)						
AMERICAN STOCK EXCHANGE						
First quarter	— high	**45 1/8**	33 1/4	60 1/2	58 5/8	45 1/4
	— low	**39 1/8**	21 1/2	56 1/4	50 3/4	40
Second quarter	— high	**48 1/4**	43	47 1/2	54 5/8	47 1/2
	— low	**39 1/2**	31 3/4	36 3/4	41	39 3/8
Third quarter	— high	**47**	43	42 1/2	57 1/2	52 1/4
	— low	**41 1/2**	32 1/2	26	47 3/4	45 1/2
Fourth quarter	— high	**43**	44 1/2	34	61 1/8	58 1/2
	— low	**36**	36 1/8	19 1/2	53 1/2	50 1/4
TORONTO STOCK EXCHANGE						
First quarter	— high	**44 7/8**	33	60	58 3/4	45 5/8
	— low	**38 7/8**	20 1/4	54 1/4	50 1/4	40
Second quarter	— high	**47**	44 1/2	56	54 1/2	46 1/2
	— low	**38 7/8**	32	36 1/2	40 1/2	39 1/8
Third quarter	— high	**45 3/4**	44	41 7/8	57 3/4	51 3/8
	— low	**40 1/2**	34 1/4	26 1/2	47 3/4	45
Fourth quarter	— high	**41 1/2**	45	33 3/4	60 3/8	58
	— low	**36 1/4**	37	19 1/2	54	49 1/2

Dividends — no dividends have been paid to date.

	1976	1975	1974	1973	1972
Number of shareholders of record	**5,809**	6,304	6,609	6,903	7,629

Management's Discussion and Analysis of the Summary of Operations

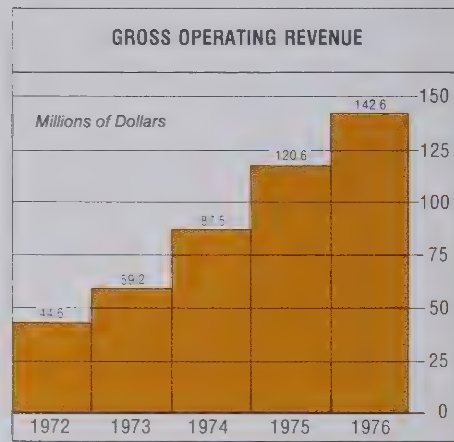
1976 Compared to 1975

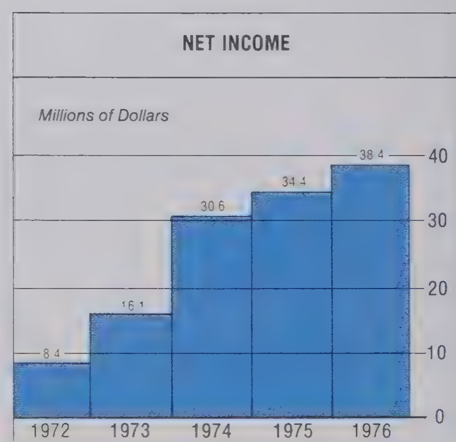
Gross revenue from all sources during 1976 increased 16% to $147.5 million. Gross operating income from the sale of crude oil, natural gas, sulphur and liquid products increased $22.0 million to $142.6 million. Other non-operating income declined from $6.6 million to $4.9 million. Cash flow before drilling and exploration increased 21% to $86.5 million. Net income increased 12% to $38.4 million, or $4.49 per share compared to $4.02 per share in the prior year. Working capital increased from $56.9 million to $80.9 million at the year end.

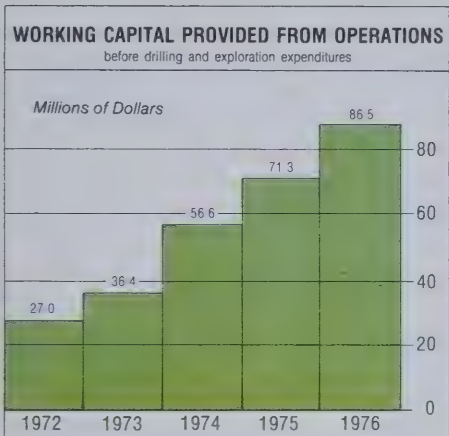
While production of crude oil and natural gas declined, as detailed elsewhere in this report, improvements in prices accounted for the increase in gross operating income.

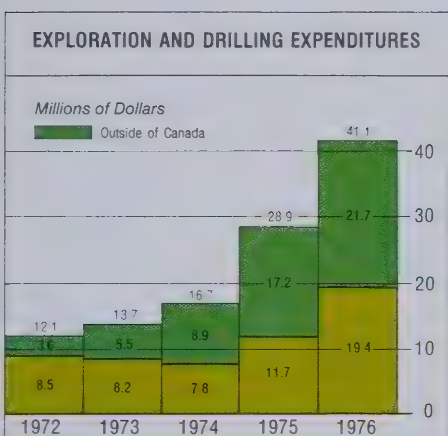
Operating, administrative and general expenses increased 23%. These higher costs were due to inflation and the continuing expansion of the Company's operating activities.

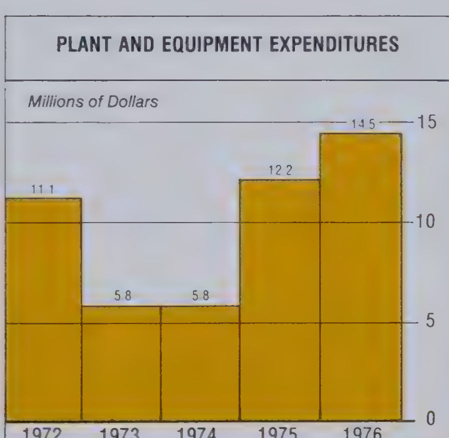
Exploration and drilling expenditures increased 42% over the prior year. These expenditures, totalling $41.1 million, are a reflection of the intensified exploration activities of the Company both in Canada and foreign areas. Consolidated expenditures on properties, plant and equipment amounted to $20.9 million, a decrease of $0.4 million from 1975.











1975 Compared to 1974

Gross revenue from all sources amounted to $127.2 million; an increase of 35% over the prior year. This substantial gain was primarily attributable to higher prices received for all products, despite lower volumes of crude oil due to the reduced export allowables to the United States. Cash flow amounted to $71.3 million compared to $56.6 million in 1974. Net income increased from $30.6 million to $34.4 million, or to $4.02 per share from $3.57 per share. Working capital increased from $38.5 million to $56.9 million at the year end.

Operating, administrative and general expenses increased 21% to $17.3 million during 1975. This was representative of the trend in industry over recent years due to inflationary factors as well as the addition of new wells and operational facilities.

Exploration and drilling expenditures amounted to $28.9 million; compared with $16.7 million expended in the previous year; a reflection of the significant increase in the tempo of the Company's exploration activities. Expenditures on properties, plant and equipment increased $3.1 million to $21.3 million.

Income taxes increased, not only as a function of higher income, but through changes in the tax laws wherein earned depletion generated by past exploration and development expenditures was fully utilized by mid-1975.

Prior Periods

Production of crude oil and natural gas liquids was relatively stable, but improved prices contributed to the annual gains in operating revenue. Natural gas sales volumes and prices also increased significantly during the periods 1972 through 1974. Higher income taxes in 1974 also reflected changes in the Income Tax Act, which provided that royalties and similar payments to provincial governments be included in taxable income.

Quarterly Results

The quarterly financial information is contained in tabular form by income and expense categories in Note 6 of the Consolidated Financial Statements.

Consolidated net income for the fourth quarter amounted to $14.3 million ($1.67 per share) compared to $9.9 million ($1.15 per share) for the fourth quarter of 1975. Cash flow amounted to $27.9 million compared to $22.6 million in 1975. These gains over the prior year's final quarter are primarily attributable to increased product prices.

Volumes of crude oil and liquid product sales in the fourth quarter of 1976 were higher than in any of the preceding three quarters. Sales of natural gas averaged 258 million cubic feet daily during the final quarter; up 3% from the same period in the prior year. The major boost occurred in the month of December when market demand for both oil and gas reached a peak for the year.

The significant quarter-by-quarter increases in exploration and drilling expenses during the first three quarters as compared to the same periods last year did not extend into the final quarter. This was due to the exceptionally high expenses in the prior year's fourth quarter related to winter drilling in the Mackenzie Delta region of the Northwest Territories.

Comparative Analysis of Average Daily Sales Volumes by Quarters

	Oil and Gas Liquids Barrels per day		Natural Gas MMcf per day		Sulphur L/Tons per day	
	1976	**1975**	**1976**	**1975**	**1976**	**1975**
1st quarter	35,879	38,987	280	292	215	413
2nd quarter	32,685	35,504	210	217	295	464
3rd quarter	32,245	36,362	191	202	500	258
4th quarter	37,822	39,479	258	251	664	342
Average for year	34,660	37,581	235	240	420	369

Geographical Analysis of Capital, Exploration and Drilling Expenditures

(Thousands of Dollars)

	1976	1975	1974
CANADA			
PETROLEUM	$31,892	$22,616	$14,592
MINERALS	636	514	584
Sub-total — Canada	32,528	23,130	15,176
INTERNATIONAL			
PETROLEUM			
United States	8,075	11,853	9,629
Arabian Gulf			
Abu Dhabi	1,194	945	1,402
Oman	407	1,216	—
Ras Al Khaimah	1,515	1,353	185
Umm Al-Qaiwain	2,286	48	766
Thailand	4,261	—	—
Guatemala	1,761	1,533	366
India	1,252	1,303	5
United Kingdom	1,208	2,827	1,425
Tunisia	987	—	—
Egypt	713	—	—
Bangladesh	673	1,458	1,865
Bolivia	568	933	—
Belize	264	—	—
Indonesia	253	1,166	—
Brazil	133	—	—
Papua New Guinea	28	1,030	44
Philippines	10	56	1,502
Other	135	58	1,890
	25,723	25,779	19,079
MINERALS			
United States	3,471	1,019	402
Chile	187	—	—
Ireland	40	58	43
Australia	15	151	218
Philippines	8	51	20
Other	14	28	—
	3,735	1,307	683
Sub-total — International	29,458	27,086	19,762
TOTAL	$61,986	$50,216	$34,938

Map of

Canadian Superior's

acreage holdings

in Canada

1976


Canada
LEGEND
Areas Within Which The Company Holds Interests as at December 31, 1976.
Oil and Gas
Mineral Prospects
Coal Prospects
LPG Storage Facilities
GREENLAND
Beaufort Sea
ALASKA
YUKON
NORTHWEST TERRITORIES
Hudson Bay
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
ONTARIO
QUEBEC
NEWFOUNDLAND
St. John's
P.E.I.
N.S.
N.B.
SABLE IS.
Halifax
Fredericton
Quebec
Montreal
Ottawa
Toronto
Winnipeg
Regina
Edmonton
Calgary
Vancouver
Victoria
U. S. A.
Pacific Ocean
Atlantic Ocean
100 50 0 100 200 300 400 MILES

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